

ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson Director

MINUTES OF A MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS COMMITTEE

HELD ON Thursday, October 27, 2011 10:30 a.m., Arizona Time

The Operations Committee (OC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Steven Zeman, Chair, called the meeting to order at 10:33 a.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Steven Zeman, Chair

Mr. Tom Manos, Vice-Chair

Mr. Kevin McCarthy

Absent: Mr. David Byers

A quorum of the Committee was present for the purpose of conducting business.

2. Approval of the August 25, 2011 Minutes of the OC Meeting

Motion: Mr. Tom Manos moved the minutes of the August 25, 2011 OC meeting be accepted. Mr. Kevin McCarthy seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

3. Presentation, Discussion and Appropriate Action Regarding ASRS Web Development

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, addressed the Committee regarding an update on maximizing the use of Web self-service. He then introduced Mr. Dave King, Assistant Director, Member Services Division, Ms. Sara Orozco, Manager, Strategic Planning and Analysis, and Mr. David Cannella, Communications Manager. Mr. King gave a brief history of the changes to the ASRS website and the work plan for the ASRS Web Steering Committee. He also discussed increasing the use of the website by members and retirees to handle such items as changing beneficiaries or addresses, applying for a refund, taking tutorials, or accessing online chat. Mr. King also discussed upcoming projects for the next calendar year.

4. Presentation, Discussion and Appropriate Action Regarding ASRS IT Security

Mr. Guarino introduced Ms. Molly Mahai, Network Information Services Manager, and Mr. Kent Smith, Assistant Director, Technology Services Division. Ms. Mahai gave the Committee a brief update on the progress of remediation efforts relating to the findings of an external security audit. She stated the ASRS was

Operations Committee Minutes October 27, 2011 Page 2 of 3

working to address all issues stated in the audit, and various software tools are in place or slated to be implemented to help identify and mitigate future risks. She said another external audit would occur in January 2012, and the results would be presented to the OC in March 2012. Mr. Smith gave a brief overview of the organizational structure at the ASRS surrounding security which includes the Security Steering Committee and various managers and subject matter experts.

5. Presentation, Discussion and Appropriate Action Regarding Performance in the ASRS Administrative Services Division

Mr. Guarino introduced Ms. Martha Rozen, Chief of Administrative Services, who gave a brief introduction on the performance of the ASRS Administrative Services Division (ASD). Ms. Rozen then introduced Mr. Russ Levine, Budget and Procurement Manager, Ms. Tracy Darmer, Human Resources Manager, and Ms. Donna McNally, Training and Development Manager. Ms. Darmer gave an overview of the Human Resources program area, touching on the areas of staffing, recruitment, retention, employee development, and diversity. Ms. McNally discussed the role of the Training and Development program area including the areas of employee development and the development of Standard Operating Procedures. Mr. Levine reviewed the role of the Budget and Procurement program area including the development of annual budget requests, monitoring and reporting of budgetary needs, procurement of goods and services, asset control, and facilities management.

6. Review of Recently Conducted Audits

- Burk Basic and Happy Valley Schools
- Fountain Hills Unified School District
- Liberty Elementary School District
- New Retiree and Pension Audit

Mr. Glick presented the Committee with four audits. The first audit was of Burk Basic and Happy Valley Schools. Mr. Glick said there were three findings. The first finding was that the schools deducted ASRS contributions from nine part-time employees who did not meet the 20/20 membership eligibility criteria. For this finding, the ASRS owes a credit of \$4,455.10 to the Schools. The second finding was that the schools had four employees who were contributing at other ASRS employers. For this finding, the Schools owe the ASRS \$40,546.16. The last finding was the schools did not report ASRS contributions for four part-time employees who were eligible. All of the findings covered Fiscal Years 2008 through 2010. Mr. Glick stated the total due the ASRS on this finding was \$21,736.35.

The second audit was of the Fountain Hills Unified School District. Mr. Glick stated there were three major finding: 1) the District did not remit contributions for seven employees who worked or were engaged to work at least 20 hours per week for at least 20 weeks in one or more fiscal years, and did not remit contributions on all eligible compensation for four employees, 2) the District applied and remitted contributions on 23 employees' option to sell back accumulated leave, and applied and remitted contributions on one employee's lump sum payment for accumulated leave upon termination of employment, and 3) the District did not request a refund for remitted contributions on two ineligible members. The amount due the ASRS is \$13,896.

The third audit was of Liberty Elementary School District. Mr. Glick said there were several findings including: 1) the District did not remit contributions for 17 employees who were engaged to work at least 20 hours per week for at least 20 weeks in one or more fiscal years or remit contributions on all eligible compensation on all employees, 2) the District remitted contributions for a number of ineligible individuals, and 3) the District had not ensured that all retirees returning to work under state statutes complied with the requirement that they acknowledge the provisions of the statute within 30 days of returning to work. The amount due the District is \$5.271.

Operations Committee Minutes October 27, 2011 Page 3 of 3

The final audit was of the ASRS New Retiree and Pension Audit processes. Mr. Glick stated there was only one finding. He said the audit found the controls and monitoring to be adequate, and the Internal Audit Division randomly sampled the population of more than 5,700 new retirees from Fiscal Year to Date (5/1/2011) to determine the accuracy of calculations. No errors were found that were in excess of the margin of error. Mr. Glick said no action was needed at this time.

7. Presentation, Discussion and Appropriate Action Regarding the Internal Audit Quarterly Update

Mr. Glick presented a spreadsheet containing the summary of internal audits through the period ending September 2011. The spreadsheet listed the audits, the hours budgeted, and estimates of how many hours were used to perform the audits. Mr. Glick noted various audits and reporting that had occurred in the first quarter of the fiscal year.

8. Presentation, Discussion and Appropriate Action Regarding the Adequacy of Pension Payroll Controls Based on Recent Events at the Social Security Administration

Mr. Guarino introduced a discussion regarding a recent news report by United Press International stating the Social Security Administration had paid out over \$600 million in benefits to individuals who had died. Mr. Zeman said he wanted to ensure there was a program in place at the ASRS to validate benefits paid out to retirees to provide a defense against any media scrutiny if a similar incident occurred at the ASRS. A discussion ensued regarding the article and possible actions that may be taken to reduce risk in this area.

9. Request for Future Agenda Items

Mr. McCarthy requested a discussion on requiring bonds to be posted by charter schools to provide security to the ASRS should the charter school become delinquent in contributions.

Mr. Zeman requested a follow up discussion regarding validation of pension payments to retirees.

10. Call to the Public

No members of the public addressed the Committee.

11. Adjournment of the OC

Zachary Kucera	Date	Anthony Guarino	Date
Respectfully Submitted by,			
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